The East bloc question

Compromise sought on the sanctions and the problem of Polish debt

by David Goldman, Economics Editor

Highly placed adminstration sources July 2 characterized Polish Premier Jaruzelski's measures to ease martial law conditions as "a step in the right direction," indicating that the administration saw the measures as the basis for a re-evaluation of the sanctions against exports directed toward Soviet energy development. "We will not jump into anything, and we are still waiting for details," said one ranking official. "But it is certainly the basis for a review of the policy."

Other Washington sources expected that the first step of any administration retreat on trade sanctions would involve the elimination of "extraterritorial" sanctions, i.e., the ban on use of American-licensed products in exports related to the Soviet-European natural gas pipeline or the Japanese-Soviet plan for development of the oil potential of the Sakhalin Islands.

Tensions among allies

It is much too early to predict the lifting of sanctions, which have become the potential *casus belli* for trade war between the United States and its Western European and Japanese allies. As *EIR* reported in some detail July 20, the administration became victim of a nasty judo trick played by certain British and Central European circles already committed to a "Third Way" approach toward the Soviets; through spurious intelligence and strategic estimates supplied to the administration by these circles, the White House elected to shoot itself in the foot over the unenforceable and divisive sanctions policy.

Despite the strident refusal of any of the Europeans to abandon the pipeline project, and continued Japanese commitment of the Sakhalin development, the administration has followed its regrettable profile on the matter, and held fast to a clearly self-defeating posture as a matter of face-saving.

Although the allies are not willing to bend to Washington, only the French Mitterrand government has actually taken steps to make relations worse. West German Chancellor Helmut Schmidt has not budged from his policy of the past eight years; alliance with the United States and correct relations with Moscow. West German banks July 12 signed their biggest loan deal ever, lending DM 4.5 billion to the Soviet Union for completion of the pipeline project.

In addition, the West German government has provided the troubled AEG corporation, severely affected by sanctions which forbid it to use General Electric license to ship turbines to the Russians, with a special $250 million export bond, in conjunction with a $110 million bank loan—which will keep AEG out of trouble until at least year's end.

At the same time, the West German, Japanese, and Italians appear to have had a role in Jaruzelski's decision to moderate the martial law situation in Poland; the announcements July 21 were more than fortuitously timed with three European-Japanese initiatives relating to the sanctions program. First, Chancellor Schmidt and his Economics Minister, Count Otto Lamsdorff, arrived in the United States on July 20, with one major purpose, to eliminate the sanctions disaster. Lambsdorff is working in Washington, while Schmidt is scheduled to spend a week at the home of his old friend, Secretary of State George Shultz, apart from speech-making stops in Houston and San Francisco.

Meanwhile, Italian Foreign Minister Emilio Colombo arrived in Washington July 21 for an unscheduled four-day visit, the principal announced purpose of which was to persuade the administration to drop the pipeline sanctions. Colombo is scheduled to meet with President Reagan, Secretary Shultz, and Commerce Secretary Baldridge.

Finally, the Japanese Ambassador to the United States, Yoshio Okawara, delivered a verbal and written protest note July 20 to the State Department against the exercise of the sanctions against the Sakhalin Islands project—extraordinarily forthright behavior for the Japanese. These three countries' actions appear well coordinated, and there are strong indications that both the West Germans and the Vatican made representations to the Poles and Russians that now might be a good time for a good-will gesture from the Polish government. "If Schmidt had a role in this," conceded an administration hard-liner, "it is welcome."

Among other things, the West Germans have made clear to the East bloc that they are prepared to provide additional financial aid to Poland, whose de facto bankruptcy on foreign debts has prevented her from purchasing needed raw materials and spare parts, and crushed the national economy.

To a certain extent the Germans have little choice in the matter; following the renewal of sanctions decisions and the July 15 passage of the Kasten-Moynihan bill by Congress, which gives the President a mandate (which he need not immediately exercise) to declare Poland in default, the Polish government has been deliberating on the possible merits of straight-out debt repudiation. Polish action of this sort would leave the West Germans with the unpleasant choice of suffering a banking crisis, which the German banks already suspect the United States of wishing upon them, or splitting with the Americans and setting up a separate deal with the Poles, further undermining European-American relations.

West Germany's and Japan's viewpoints

Low-keyed but important financial ties between West Germany and the Poles have survived the debt crisis. The Poles have been careful to pay their West German corporate suppliers, even though they are in no position to pay the bankers. Poland still has about $800 million in foreign deposits, and most of this is in West Germany; against the German portion, West German banks have continued to make available a small but significant volume of trade credits.

According to well-placed German industry sources, negotiations are underway to expand the existing volume of trade credits by the following ruse: German banks will lend the Poles the wherewithal to pay their 1982 interest payments (at least to West German, and probably to Swiss and Austrian banks), and then use the repayment as leverage to extend additional trade credits. According to a Japanese wire-service report July 21, Japanese banks have also been approached, and are equally concerned to avoid debt repudiation, which they fear the Americans are moving toward.

Perhaps more important is a proposal now under discussion, according to Viennese banking sources close to the negotiations, to put off the entire Polish interest and principal for an 8-to 10-year period, in order to give the economy a chance to get back on its feet. This is the approach overwhelmingly favored by the Germans and the Austrians; how the American and other Polish creditors will respond is not yet known.

While the principals in these negotiations have withheld details, it is nonetheless clear that the Europeans and Japanese have delivered a clear political message to the East bloc: it is in the latter's interest to take no drastic action on the debt issue at this time. What further may have been aired during the intense mid-July Vatican-Polish diplomacy remains a matter of speculation.

The results of the European effort in Washington will not be known for some weeks. Much depends on the reaction of the new Secreary of State, whose views are known only to himself. The administration has continued to play rough. Japan's Kyoto News Service cited official American warnings to Japan against violation of sanctions procedures in a July 21 dispatch; according to Kyoto, it is not to be excluded that firms violating the sanctions against use of American technology in goods directed towards prohibited Soviet projects might face seizure of their assets in the United States.

The Mitterrand flap

Also disturbing is the July 21 action of the French government which ostentatiously announced that it would order commercial firms engaged in the pipeline project to make good on their projects. Foreign Minister Claude Cheysson lamented the fact that the United States and France "no longer speak the same language," in the bitterest public criticism of the administration yet directed from a European government. The French have played the provocateur since the Versailles summit meeting; allegedly, a motivation of the Reagan administration in making the pipeline sanctions extraterritorial was the sense that Mitterrand had played Reagan false at Versailles, promising strictness on Soviet credits, and then turning around immediately afterward to extend further loans to the Russians.

The fanfare about France's decision to flout the sanctions in the American press is suspicious, particularly as the British had made an identical announcement two weeks prior, which went entirely ignored in America news reports. By the typical standards of the East Coast media, it is one thing for the "good" British to order *American* firms in the United Kingdom to make good on contracts to the Soviet Union despite the instructions of the American government—which the Thatcher government has—and another thing for the "bad" French to do the same to French firms!

The administration's querulous eye towards France is not unjustified; the Mitterrand government is an instrument of the same oligarchic circles in Europe who plotted U.S. embarrassment in the first place. Whether President Reagan will be baited into an aggravation of his original blunder is not clear. What remains certain is that the West Germans and Japanese, with apparent Vatican support, have given him a face-saving means of stepping out of a trap before it closes for good.